

**TOWNSHIP OF SOMERSET, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**YEAR ENDED JUNE 30, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name TOWNSHIP OF SOMERSET	County HILLSDALE
Fiscal Year End 6/30/06	Opinion Date 7/31/06	Date Audit Report Submitted to State ✓ 10-23-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

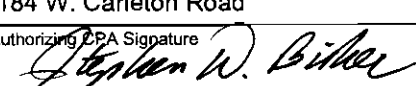
SEAL

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) OSBOURNE, MARCH, CONDON & CO., P.C.		Telephone Number 517.439.9331	
Street Address 184 W. Carleton Road		City Hillsdale	State MI
Zip 49242			
Authorizing CPA Signature 		Printed Name Stephen W. Bisher	License Number 1101026492

TOWNSHIP OF SOMERSET, MICHIGAN

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Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

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Hillsdale, Michigan 49242

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## INDEPENDENT AUDITOR'S REPORT

Township Board  
Township of Somerset, Michigan  
Somerset Center, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset, Michigan, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 31, 2006 on our consideration of Township of Somerset, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages iii through viii and 19 through 23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

***Osbourne, March, Condon & Co., P.C.***

Certified Public Accountants

Hillsdale, Michigan  
July 31, 2006

The following discussion and analysis of the financial performance for the Township of Somerset, Michigan (the "Township") provides an overview of the Township's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

The following represents the most significant financial highlights for the year ended June 30, 2006:

- Property taxes are the Township's single, largest source of revenue. The Township's tax base for fiscal year 2006 was equal to a taxable value of \$185,567,899, which represents an increase of \$13,587,993 or 7.32 percent.
- State-shared revenue, the second largest revenue source, was increased by the State of Michigan by approximately \$5,940 this year. This represents a 2 percent increase from the prior year.
- The Township was awarded a \$7,000 HAVA (Help America Vote Act) Grant by the State of Michigan for the purchase of an Auto Mark voting unit, which services the two precincts in Somerset Township.
- The Township purchased a new phone system at a cost of \$7,414.
- The Township entered into a lease agreement with New Cingular for the erection of a cell tower on property owned by the Township in McCourtie Park. Monies for lease will be used for the restoration of the 17 historic bridges within the park.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township of Somerset, Michigan's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business, and therefore, are prepared using the accrual basis of accounting. These statements provide a long-term view of the Township's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.
- The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and state shared revenues and earned but unused sick and vacation leave).

**Overview of the Financial Statements (Concluded)**

**Government-wide financial statements (concluded).** The governmental activities of the Township include general government, public safety, highways and roads, capital improvements, and parks and recreation.

The government-wide financial statements can be found on pages 1-2 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township of Somerset, Michigan, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Township's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Township's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township of Somerset, Michigan maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Roads, Fire, Police, and Capital Improvement Funds, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation and are comprised of the Parks and Recreation Fund and Cemetery Perpetual Care Permanent Fund.

The Township adopts an annual appropriated budget for all of its funds. Budgetary comparison schedules have been provided for the General, Roads, Fire, Police, and Capital Improvement Funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 3-6 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government, such as the Tax Fund, where property taxes are collected and disbursed on behalf of and to other local units of government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support Township of Somerset, Michigan's own programs. The basic fiduciary fund financial statements can be found on page 7 of this report.

# TOWNSHIP OF SOMERSET, MICHIGAN

## Management's Discussion and Analysis June 30, 2006

### Financial Analysis of the Township as a Whole

The Township's net assets increased by approximately 6.3 percent from a year ago, increasing from \$2 million to \$2.15 million.

The increase in net assets of governmental activities in the amount of \$136,265 is primarily due to (1) the overall control over expending, and (2) the result of a change in accounting estimate in funding a debt obligation as determined by the third party trustee to whom the obligation was owed. This is reported as a Significant Item in TABLE 2.

The following table shows, in a condensed format, the net assets of the Township of Somerset, Michigan as of June 30, 2005 and 2006.

**TABLE 1 – Township of Somerset, Michigan's Net Assets**

	GOVERNMENTAL ACTIVITIES	
	2006	2005
Assets		
Current assets	\$ 988,803	\$ 920,736
Capital assets	879,349	935,546
Other non-current assets	<u>303,500</u>	<u>310,255</u>
Total Assets	<u>\$ 2,171,652</u>	<u>\$ 2,166,537</u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities	\$ 15,563	\$ 94,735
Long-term liabilities		<u>52,000</u>
Total Liabilities	<u>\$ 15,563</u>	<u>\$ 146,735</u>
Net Assets:		
Invested in capital – net of related debt	\$ 879,349	\$ 920,504
Restricted	56,395	50,891
Unrestricted	<u>1,220,345</u>	<u>1,048,407</u>
Total Net Assets	<u>\$ 2,156,089</u>	<u>\$ 2,019,802</u>
Total Liabilities and Net Assets	<u>\$ 2,171,652</u>	<u>\$ 2,166,537</u>



# TOWNSHIP OF SOMERSET, MICHIGAN

## Management's Discussion and Analysis June 30, 2006

### Financial Analysis of the Township as a Whole (Concluded)

The following is the government-wide results of operations for the fiscal year ended June 30, 2006:

The Township's total revenues were \$922,259 for the current year, of which 45% was comprised of property taxes. Charges for services accounted for another 16%. State-shared revenues represent 32% and operating and capital grants and contributions totaled 1%. Other revenues (donations, interest, etc.) were 6%. The total cost of all programs and services at June 30, 2006 was \$848,805. Township expenses cover a wide range of services. For the current fiscal year the Township's expenses were comprised of 45% for general government, 30% for public safety, 1% for capital outlay, 4% for parks and recreation, 12% for highways, roads and debt service, and 8% for unallocated depreciation.

**TABLE 2 – Changes in Township of Somerset, Michigan's Net Assets**

	GOVERNMENTAL ACTIVITIES	
	2006	2005
Revenue		
Program Revenue		
Charges for services	\$ 143,734	\$ 144,312
Operating grants and contributions	5,483	10,965
Capital grants and contributions	7,000	11,056
General Revenue		
Property taxes	415,907	405,299
State-shared revenues	294,124	288,184
Interest	29,800	13,914
Donations		5,574
Other	26,211	18,521
Total Revenue	<u>\$ 922,259</u>	<u>\$ 897,825</u>
Program Expenses		
General government	\$ 379,465	\$ 378,942
Public safety	258,574	220,494
Highways and roads	102,029	60,412
Parks and recreation	31,885	26,620
Capital outlay	6,241	9,000
Depreciation (unallocated)	70,611	73,098
Total Program Expenses	<u>\$ 848,805</u>	<u>\$ 768,566</u>
Change in Net Assets, before significant items	73,454	129,259
Significant items	<u>62,833</u>	
Change in Net Assets, after significant items	<u>\$ 136,287</u>	<u>\$ 129,259</u>

**Governmental Activities**

In fiscal year 2006, the Township experienced an increase in its State-shared revenues in the amount of \$5,940 due to statewide economic conditions. In total, the Township's revenues increased by \$24,434 due to the increase in State-shared revenues, property taxes and interest earnings.

During the year, the Township was awarded a \$7,000 grant towards the purchase of a new handicap voting assistance scanner that was state mandated through HAVA (Help America Vote Act). The Township received an AutoMark to service our two precincts that were purchased through the Hillsdale County Clerk's office.

**Financial Analysis of the Township's Funds**

The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages, grants, contributions or capital projects. The Township's major funds for 2005/2006 consisted of the following funds: General, Fire, Road, Police, and Capital Improvement.

The General Fund is the main operating fund of the Township. Total General Fund revenues and transfers for fiscal year 2005/2006 decreased. The decrease is attributable to two main facts: (1) in prior year, the Township collected approximately \$4,000 more in delinquent personal property taxes, and (2) building permits sold during the current fiscal year were approximately 30% or \$13,000 less than prior year. Approximately \$10,000 of the decline in revenues was offset by higher interest yields on deposit accounts.

General Fund expenditures decreased due to a level funding budget; i.e., greater measures taken to control costs.

As of June 30, 2006 the fund balance in the General Fund was \$476,068, representing over 76% of General Fund operating expenditures and transfers.

The Fire Fund ended the year with revenues approximately \$6,000 less than prior due primarily to less appropriation from the General Fund. Expenditures increased over prior year by \$17,000, resulting from the hiring of a full time fire chief, cost incurred for reseue training, and additional expense for supplies.

The Police Fund ended the year with revenues approximately \$10,000 higher than prior year due to increases in property taxes and General Fund appropriation. Expenditures increased by \$9,000, resulting from increases in insurance cost, vehicle maintenance, and equipment purchases. Additionally, the Police Department was awarded a \$5,000 grant from the State of Michigan, which it antieipates receiving in October, 2006 for the purchase of equipment.

The Road Fund revenue is approximately the same as prior year. However, appropriation from the General Fund was \$100,000, up by \$33,000 over prior year. This is due to echanges made at the County level for cost sharing in road improvements. The Township historically paid 50% towards road projects. During the year, the County changed its policy requiring townships to pay 75% - 100% towards projects. As a result, the Township Board approved an increase in appropriation during the year. As a result in the increase in funding requirements established at the county level and the number of projects taken on, costs were up by 40%.

Capital Improvement Fund revenues remained level with prior year. However, General Fund Appropriations were up by \$60,000 because of anticipated projects that did not occur until subsequent to year ended June 30, 2006. This further supports the level of expenditures incurred of \$18,865.

Overall each of the major funds was under budget with the exception of the Fire Fund, which exceeded its expenditure budget by \$10,917.

# **TOWNSHIP OF SOMERSET, MICHIGAN**

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Management's Discussion and Analysis  
June 30, 2006

## **General Fund Highlights**

The General Fund accounts for all property tax assessing, elections, cemetery activity, planning, zoning, and other administrative functions of the Township government. The budget is essentially a "maintenance" budget, which means it increases modestly from year to year. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 5 percent of budgeted amounts. However, for fiscal year ended June 30, 2006 the Township was under budget by approximately 22%.

## **Capital Asset and Debt Administration**

At the end of fiscal year 2006, the Township had approximately \$879,349 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, vehicles, etc. There is no related infrastructure reported in the year end net capital investment. The Township elects to follow the method of prospective reporting of infrastructure assets provided in the new reporting pronouncement.

During the year, the Township repaid all debt obligations related to capital investments.

The Township also funds fire rescue equipment replacements by setting aside cash in the Fire Fund. The Township properly maintains existing equipment and carefully plans for equipment replacements to avoid burdening taxpayers with additional debt millage to replace existing equipment.

## **Economic Factors and Next Year's Budgets and Rates**

The Township's budget for 2006/2007 is based on the same property tax rate as was for year ended June 30, 2006. This can be accomplished because of the continuous growth in the tax base. However, because of the impact of the State-shared revenue cuts, the Township will continue to watch its budget very close.

The 2006/2007 budget includes monies designated for the purchase of a new tanker fire truck that is expected to be purchased in August 2006.

Also during the 2006/2007 budget year, the Township will be conducting an investigative/feasibility study for sewers. We are expecting this to be a considerable cost. The engineering firm of Progressive AE has been retained

## **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements, we welcome you to contact the Township Clerk's office located at 12715 East Chicago Road, Somerset, Michigan 49282.

## TOWNSHIP OF SOMERSET, MICHIGAN

## STATEMENT OF NET ASSETS

JUNE 30, 2006

	GOVERNMENTAL ACTIVITIES
<b>ASSETS</b>	
Current Assets:	
Cash	\$ 452,366
Investments	413,553
Special assessment receivable, current portion	4,750
Due from other governmental units	<u>118,134</u>
Total Current Assets	<u>\$ 988,803</u>
Noncurrent Assets:	
Special assessment receivable, net of current portion	\$ 14,250
Grave sites available for sale	289,250
Capital assets	1,567,672
Less: accumulated depreciation	<u>(688,323)</u>
Total Noncurrent Assets	<u>\$ 1,182,849</u>
TOTAL ASSETS	<u><u>\$ 2,171,652</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities:	
Accounts payable	\$ 9,250
Compensated absences	5,839
Other accrued liabilities	<u>474</u>
Total Current Liabilities	<u>\$ 15,563</u>
Net Assets:	
Invested in capital assets, net of related debt	\$ 879,349
Restricted:	
Metro Act expenditures	27,712
Special assessment - road improvements	27,544
Police training	604
Cemetery perpetual care:	
Nonexpendable	500
Expendable	35
Unrestricted	<u>1,220,345</u>
Total Net Assets	<u>\$ 2,156,089</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,171,652</u></u>

See accompanying notes to the basic financial statements.

## TOWNSHIP OF SOMERSET, MICHIGAN

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

	PROGRAM REVENUES				GOVERNMENTAL ACTIVITIES
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
GOVERNMENTAL ACTIVITIES					
General government	\$ 379,465	\$ 122,777	\$	\$ 7,000	\$ (249,688)
Public safety	258,574	16,592	250		(241,732)
Highways and roads	102,029		5,233		(96,796)
Parks and recreation	31,885	4,365			(27,520)
Capital outlay	6,241				(6,241)
Depreciation (unallocated)	70,611				(70,611)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 848,805</u>	<u>\$ 143,734</u>	<u>\$ 5,483</u>	<u>\$ 7,000</u>	<u>\$ (692,588)</u>
GENERAL REVENUES					
Property taxes					\$ 415,907
State-shared revenues					294,124
Interest					29,800
Other					26,211
TOTAL GENERAL REVENUES					<u>\$ 766,042</u>
CHANGE IN NET ASSETS, BEFORE SIGNIFICANT ITEMS					\$ 73,454
SIGNIFICANT ITEMS					
Change in accounting estimate - Note 6					<u>62,833</u>
CHANGE IN NET ASSETS, AFTER SIGNIFICANT ITEMS					136,287
NET ASSETS - BEGINNING					<u>2,019,802</u>
NET ASSETS - ENDING					<u>\$ 2,156,089</u>

See accompanying notes to the basic financial statements.

## TOWNSHIP OF SOMERSET, MICHIGAN

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2006

	GENERAL FUND	ROADS	FIRE
<b>ASSETS</b>			
Cash and cash equivalents	\$ 137,248	\$ 180,907	\$ 19,779
Investments	202,691	70,230	15,078
Due from other funds	26,350		18,865
Due from other government units	<u>115,796</u>	<u></u>	<u>2,000</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 482,085</u></u>	<u><u>\$ 251,137</u></u>	<u><u>\$ 55,722</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 5,839	\$	\$ 391
Other accrued liabilities	178		
Due to other funds	<u></u>	<u>12,565</u>	<u>13,000</u>
<b>Total Liabilities</b>	<u><u>\$ 6,017</u></u>	<u><u>\$ 12,565</u></u>	<u><u>\$ 13,391</u></u>
<b>Fund Balances:</b>			
<b>Reserved for:</b>			
Metro Act expenditures	\$	\$ 27,712	\$
Road improvements		27,544	
Police training			
Cemetery perpetual care			
<b>Unreserved:</b>			
Undesignated	<u>476,068</u>	<u>183,316</u>	<u>42,331</u>
<b>Total Fund Balances</b>	<u><u>\$ 476,068</u></u>	<u><u>\$ 238,572</u></u>	<u><u>\$ 42,331</u></u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 482,085</u></u>	<u><u>\$ 251,137</u></u>	<u><u>\$ 55,722</u></u>

See accompanying notes to the basic financial statements.

POLICE	CAPITAL IMPROVEMENT	OTHER NON MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 25,341	\$ 45,668	\$ 42,638	\$ 451,581
25,130	90,372	10,052	413,553
338			45,215
			118,134
<u>\$ 50,809</u>	<u>\$ 136,040</u>	<u>\$ 52,690</u>	<u>\$ 1,028,483</u>
\$ 3,020	\$	\$	\$ 9,250
296			474
	18,865		44,430
<u>\$ 3,316</u>	<u>\$ 18,865</u>	<u>\$</u>	<u>\$ 54,154</u>
\$	\$	\$	\$ 27,712
604			27,544
		535	604
			535
<u>46,889</u>	<u>117,175</u>	<u>52,155</u>	<u>917,934</u>
<u>\$ 47,493</u>	<u>\$ 117,175</u>	<u>\$ 52,690</u>	<u>\$ 974,329</u>
<u>\$ 50,809</u>	<u>\$ 136,040</u>	<u>\$ 52,690</u>	<u>\$ 1,028,483</u>

TOWNSHIP OF SOMERSET, MICHIGAN  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS

JUNE 30, 2006

GOVERNMENTAL FUND BALANCES	\$ 974,329
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources, and  
are not reported in the funds

The cost of the capital assets is	\$ 1,567,672	
Accumulated depreciation is	<u>(688,323)</u>	
		879,349

Receivables are expected to be collected in future years and are not available to pay for current year expenditures	19,000
--	--------

Cemetery grave sites available for sale are not current financial resources	289,250
---	---------

Accumulated employee sick and vacation pay are not due and payable with current resources	<u>(5,839)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,156,089</u></u>
---------------------------------------	----------------------------

See accompanying notes to the basic financial statements.



## TOWNSHIP OF SOMERSET, MICHIGAN

## GOVERNMENTAL FUNDS

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2006

	GENERAL FUND	ROADS	FIRE
REVENUES			
Taxes	\$ 113,778	\$ 42,366	\$ 112,948
State revenues	301,124	5,233	
Charges for services	33,283		10,538
Licenses and permits	69,178		
Fines, fees, and forfeits	16,556		
Interest	17,550	5,768	994
Rental revenue	3,760		
Other	23,126		266
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL REVENUES	\$ 578,355	\$ 53,367	\$ 124,746
	<u>          </u>	<u>          </u>	<u>          </u>
EXPENDITURES			
General government	\$ 401,392	\$	\$
Public safety			149,117
Highways and roads		102,029	
Parks and recreation			
Capital outlay			
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL EXPENDITURES	\$ 401,392	\$ 102,029	\$ 149,117
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES OVER (UNDER)			
EXPENDITURES	\$ 176,963	\$ (48,662)	\$ (24,371)
	<u>          </u>	<u>          </u>	<u>          </u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$	\$ 100,000	\$ 50,565
Operating transfers (out)	(227,009)		
Payments on long-term debt			(15,283)
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (227,009)	\$ 100,000	\$ 35,282
	<u>          </u>	<u>          </u>	<u>          </u>
NET CHANGE IN FUND BALANCE	\$ (50,046)	\$ 51,338	\$ 10,911
FUND BALANCES - BEGINNING	526,114	187,234	31,420
	<u>          </u>	<u>          </u>	<u>          </u>
FUND BALANCES - ENDING	\$ 476,068	\$ 238,572	\$ 42,331
	<u>          </u>	<u>          </u>	<u>          </u>

See accompanying notes to the basic financial statements.

POLICE	CAPITAL IMPROVEMENTS	OTHER NON MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 75,274	\$ 37,616	\$ 37,616	\$ 419,598
250			306,607
			43,821
			69,178
6,054			22,610
1,752	2,173	1,563	29,800
		4,365	8,125
1,978		2,091	27,461
<u>\$ 85,308</u>	<u>\$ 39,789</u>	<u>\$ 45,635</u>	<u>\$ 927,200</u>
\$	\$	\$	\$ 401,392
108,093			257,210
			102,029
		31,885	31,885
	13,655		13,655
<u>\$ 108,093</u>	<u>\$ 13,655</u>	<u>\$ 31,885</u>	<u>\$ 806,171</u>
\$ (22,785)	\$ 26,134	\$ 13,750	\$ 121,029
\$ 35,244	\$ 60,065	\$	\$ 245,874
	(18,865)		(245,874)
			(15,283)
<u>\$ 35,244</u>	<u>\$ 41,200</u>	<u>\$</u>	<u>\$ (15,283)</u>
\$ 12,459	\$ 67,334	\$ 13,750	\$ 105,746
35,034	49,841	38,940	868,583
<u>\$ 47,493</u>	<u>\$ 117,175</u>	<u>\$ 52,690</u>	<u>\$ 974,329</u>

TOWNSHIP OF SOMERSET, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

JUNE 30, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 105,746

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures and in the statement of activities these costs are allocated over their estimated useful lives as depreciation

Depreciation expense	\$ (70,611)	
Capital outlay	<u>14,414</u>	(56,197)

Repayment of bank notes, revenue bonds, and other long-term obligations are expenditures in the governmental funds, but not in the statement of activities, where it reduces long-term debt	30,208
---	--------

Increase in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	(1,362)
--	---------

Receipts for the sale of cemetery grave sites are revenue in the governmental funds, but the receipts reduce cemetery graves sites available for sale in the governmental activities	(1,250)
--	---------

Receipts collected on special road assessments are revenues in the governmental funds, but the receipts reduce long-term receivables in the governmental activities	<u>(3,691)</u>
---	----------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 73,454</u></u>
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See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN  
FIDUCIARY FUND  
STATEMENT OF ASSETS AND LIABILITIES  
JUNE 30, 2006

TAX  
COLLECTION  
AGENCY  
FUND

ASSETS

Cash

\$ 785

LIABILITIES

Due to other funds

\$ 785

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Somerset, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

The Township of Somerset (the "Township") was organized in 1837. The Township operates under a part-time elected board and provides the following services to its residents: Public Safety - police and fire, Parks and Recreation, Public Improvements, and General Administrative Services.

ECONOMIC DEPENDENCY

The Township is economically dependent on the State of Michigan for state shared revenues. Absent allocations from the State, the Township's operating results would report expenditures exceeding revenues in its General Fund. Furthermore, the General Fund would be in a deficit position within a two year period continuing the services the Township currently provides.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Township. For the most part, the effect of inter-fund activity has been removed from these statements. All the Township's government-wide activities are considered governmental activities, which are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND  
FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The effect of inter-fund activity has been eliminated from the government-wide financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND  
FINANCIAL STATEMENT PRESENTATION (CONCLUDED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and State-shared revenues. All other revenue items are considered to be available only when cash is received by the Township.

The Township reports the following major governmental funds:

The *General Fund* is the general operating fund of the Township. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

The *Road Fund* is a Special Revenue Fund used to account for road maintenance costs. The costs are funded through the collection of property taxes and General Fund appropriations.

The *Fire Fund* is a Special Revenue Fund used to account for fire protection services. The costs are funded through the collection of property taxes, General and Capital Improvement Fund appropriations, and service fees.

The *Police Fund* is a Special Revenue Fund used to account for police protection services. The costs are funded through the collection of property taxes, General and Capital Improvement Fund appropriations, and service fees.

The *Capital Improvement Fund* accounts for the acquisition or construction of major capital improvements and equipment. The costs are funded through the collection of property taxes and General Fund appropriations.

Additionally, the Township reports the following fund types:

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

*Permanent Funds* account for assets held by the Township pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund. The Township's permanent fund is a Cemetery Memorial Fund. This fund is reported as another non-major governmental fund.

*Fiduciary Funds* are used to account for assets held in a trustee or agency capacity for others and therefore are not available to support Township operations. The Township's only Fiduciary Fund type is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Township presently collects and distributes property taxes on behalf of and to other local units of government through its agency fund.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BANK DEPOSITS

All accounts and deposits with original maturity of three months or less from date of acquisition are considered to be cash.

RECEIVABLES AND PAYABLES

Outstanding balances and activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

All receivables are reported at their net realizable values.

CAPITAL ASSETS

Capital assets that include land, buildings, improvements, equipment and vehicles are reported in the government-wide financial statements. The Township defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend the life of an asset are not capitalized but rather expensed in the period incurred.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	YEARS
Buildings	40
Improvements	15-40
Equipment	10-20
Furniture and library books	3-5
Vehicles	3-20

CEMETERY GRAVE SITES

The Township has available for sale 2,314 grave sites. These grave sites are priced at the resident rate of \$125 per grave site. At June 30, 2006 the grave sites are valued at \$289,250 and reported as non-current assets in the statement of net assets.

COMPENSATED ABSENCES

Full time employees are eligible to earn vacation and sick/personal leave time. Vacation leave time is earned based on the number of service years employed. Sick/leave is earned annually and is limited to six days per year. All leave time earned is available to the employees on their anniversary hire date. Leave time is not allowed to accumulate and must be used prior to the employee's anniversary date. At June 30, 2006 the balance of unused leave exceeded paid leave time in the amount of \$5,839.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM OBLIGATIONS

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures. At June 30, 2006, the Township was not indebted with any long-term obligations.

EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Restricted net assets reported in the government-wide financial statements are reported as such from restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PROPERTY TAX

The Township of Somerset, Michigan bills and collects property taxes and distributes them to other local units of government. Properties are assessed as of December 31, and the related real property taxes are levied and become a lien on July 1 of the following year for summer taxes and December 1 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 28, respectively. Delinquent taxes are turned over to the County and added to the County tax roll. The County remits all uncollected delinquent real property tax to the Township by June 30. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

BUDGETS AND BUDGETARY ACCOUNTING

The Township's budgetary procedures in establishing budgetary data reflected in the financial statements are as follows:

1. The Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is usually enacted through passage of a resolution.



TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

BUDGETS AND BUDGETARY ACCOUNTING (CONCLUDED)

4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Capital Project Fund.
5. Budgets for the General, Special Revenue, and Capital Project Funds are adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by the Township Board. Budgets for the General Fund are adopted on a functional basis.
6. Any excess amount budgeted for expenditures are covered by a carryover in fund balance from previous years.
7. The budgeted revenues and expenditures for major funds are presented in a budgetary comparison schedule as required supplemental information.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2006.

NOTE 2: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

At year end, the deposits were reported in the basic financial statements in the following categories:

	GOVERNMENTAL ACTIVITIES	FIDUCIARY FUNDS	TOTAL GOVERNMENT
Cash	\$ 395,186	\$ 785	\$ 395,971
Cash – restricted	56,395		56,395
Investments	413,553		413,553
	<u>\$ 865,134</u>	<u>\$ 785</u>	<u>\$ 865,919</u>

Restricted cash comprises reserved fund balances and restricted net assets as disclosed in Note 8.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 2: CASH AND INVESTMENTS (CONCLUDED)

The breakdown between cash and investments for the Township are as follows:

	TOTAL GOVERNMENT
Cash (checking accounts, savings accounts and certificates of deposits)	\$ 452,091
Money market fund	413,553
Petty cash	275
	<hr/>
Total	\$ 865,919
	<hr/>

Deposits

The Township's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) as \$877,468. Of that amount, \$300,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

Investments

Investments are normally categorized to give an indication of the level of risk assumed by the Township. As of June 30, 2006, the Township held investments in a money market fund, totaling \$413,553, which was rated AAA by Standard & Poor's rating service. Additionally, there is no custodial risk because the fund is not evidenced by securities that exist in physical or book entry form.

The investment policy adopted by the Township Council is in accordance with Public Act 196 of 1997.

NOTE 3: SPECIAL ASSESSMENT RECEIVABLE

In year ended June 30, 2001 the Township provided a road paving project at the request of local property owners residing in the Township. In exchange for the new paved road the property owners agreed to a special property tax assessment to pay for the project. The cost of the project totaled \$52,000 to be collected over ten years. Property owners are assessed \$125 per parcel plus interest at 8% annually. The assessment continues through the year ending June 30, 2010. The special assessment receivable is reported in the statement of net assets.

JUNE 30	PRINCIPAL	INTEREST	TOTAL
2007	\$ 4,750	\$ 1,000	\$ 5,750
2008	4,750	890	5,640
2009	4,750	510	5,260
2010	4,750	54	4,804
2011	<hr/>	<hr/>	<hr/>
	\$ 19,000	\$ 2,454	\$ 21,454

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 4: OPERATING LEASE

On February 28, 2006, the Township entered into a lease agreement to lease real property located in the Township's park to New Cingular Wireless PCS LLC for the installation of a cellular phone tower. The terms of the lease require monthly lease payments payable to the Township of Somerset in the amount of \$1,200 commencing on April 1, 2006 through March 1, 2011. The lease agreement provides the company the option of extending the lease up to an additional twenty years. The option can only be exercised through written notification to the Township prior to the termination of the first five year term.

During the fiscal year, the Township recognized \$3,600 in lease revenue in its General Fund.

The following is a schedule of future minimum lease collections:

2007	\$ 14,400
2008	14,400
2009	14,400
2010	14,400
2011	<u>14,400</u>
	<u>\$ 72,000</u>

NOTE 5: CAPITAL ASSETS

	BALANCE JULY 1, 2005	ADDITIONS	DISPOSALS	BALANCE JUNE 30, 2006
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated:				
Land	\$ 226,000	\$	\$	\$ 226,000
Capital assets being depreciated:				
Buildings and improvements	566,324			566,324
Machinery and equipment	207,180			207,180
Vehicles	462,162			462,162
Office equipment & furnishings	<u>91,592</u>	<u>14,414</u>		<u>106,006</u>
Subtotal	<u>\$ 1,553,258</u>	<u>\$ 14,414</u>	<u>\$</u>	<u>\$ 1,567,672</u>
Accumulated depreciation:				
Buildings and improvements	\$ 251,802	\$ 18,264	\$	\$ 270,066
Machinery and equipment	73,868	14,626		88,494
Vehicles	246,803	32,699		279,502
Office equipment & furnishings	<u>45,239</u>	<u>5,021</u>		<u>50,260</u>
Subtotal	<u>\$ 617,712</u>	<u>\$ 70,610</u>	<u>\$</u>	<u>\$ 688,322</u>
Net Capital Assets	<u>\$ 935,546</u>	<u>\$ (56,196)</u>	<u>\$</u>	<u>\$ 879,350</u>

Unallocated depreciation expense charged to governmental activities totaled \$70,610.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 6: LONG-TERM DEBT

The following is a summary of changes in long-term debt:

	BALANCE JULY 1, 2005	ADDITIONS	REDUCTIONS	BALANCE JUNE 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Southern Michigan Bank & Trust	\$ 15,041	\$	\$ 15,041	\$
Addison Hospital Authority	78,000		78,000	
Total Governmental Activities	<u>\$ 93,041</u>	<u>\$</u>	<u>\$ 93,041</u>	<u>\$</u>

Cash paid for interest and expensed during the year totaled \$242 and is reported as a direct expense in the public safety function in the statement of activities.

Change in Accounting Estimate -  
Addison Hospital Authority Obligation

In the 1940's, the electoral of Somerset Township and three other townships approved to levy a one tenth mill to financially support the operations of the Addison Hospital Authority. In the early 1990's, the Authority filed bankruptcy. In 1996, a medical group out of Ypsilanti, Michigan purchased all the physical assets from the Authority. The proceeds from the sale were paid to creditors named in the bankruptcy to settle all reported claims. However, a pension fund remained under funded. The bankruptcy court concluded that the four townships were responsible for funding the pension fund.

Each township has been making annual payments to the Authority's trustee under varying agreements for the past ten years towards funding the pension obligation. During the year, the Township was notified by the Authority's trustee that (1) a final payment in the amount of \$15,167 was due from the Township, (2) the pension fund would be fully funded upon receipt of their final payment, and (3) the Township is relieved from any future payment obligation. This resulted in a change in the original estimate provided by the Authority's trustee in the amount of \$62,833 - prior year's ending obligation balance of \$78,000 less amounts paid during the year of \$15,167. This change in accounting estimate is reported in the statement of activities as a *significant item* following *change in net assets, before significant items*.

NOTE 7: INTERFUND LOAN

During the 2001 year the Township's General Fund loaned the Road Fund \$30,000 towards a paving project disclosed in Note 4. The Road Fund is required to repay the principal amount loaned plus 8% interest back to the General Fund from amounts collected on the special assessment each year until fully paid by 2010. At June 30, 2006 the outstanding obligation to the General Fund was \$12,565, comprised of a principal balance of \$10,832 and accrued interest of \$1,733.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 8: EQUITIES

Reserved fund balances and restricted net assets at June 30, 2006 were as follows:

<u>Fund Balance</u>	RESERVED
Police Fund	
Police training – Act 302	\$ 604
Road Fund	
Metro Act funding	27,712
Special assessment – road improvements	27,544
Cemetery Permanent Fund	
Cemetery perpetual care	
Nonexpendable	500
Expendable	<u>35</u>
	<u>\$ 56,395</u>

Reserved

- Act 302 monies received from the State of Michigan are restricted for police training.
- Metro Act monies received from the State of Michigan are restricted for right-of-way improvements and/or street lighting costs.
- Special assessment monies collected in the Debt Retirement Fund for the repayment of a bond related to the construction of a road exceeded the payoff of the bond obligation. These monies were transferred from the Debt Retirement Fund in to the Road Fund for future improvements towards the road that was constructed with the bond proceeds.
- Cemetery perpetual care monies are restricted into perpetuity whereby only interest earnings may be expended towards cemetery maintenance costs.

NOTE 9: EXPENDITURES OVER BUDGET

P.A. 621 of 1978 Section 18, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved Fire Fund budget of the Township was adopted at the fund level. During the year ended June 30, 2006, the Township incurred expenditures in the fund, which were in excess of the amended budget as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Fire Fund	\$ 138,200	\$ 149,117	\$ 10,917

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 10: OPERATING TRANSFERS

Interfund transfers for the current year were as follows:

Governmental Activities

Transfers out from:	Transfers in to:	
General Fund	Fire Fund	\$ 31,700
General Fund	Road Fund	100,000
General Fund	Police Fund	35,244
General Fund	Capital Improvement Fund	60,065
Capital Improvement Fund	Fire Fund	<u>18,865</u>
	Total	<u>\$ 245,874</u>

All transfers between Township funds are approved appropriations in the 2005-2006 budgets.

- Transfers from the General Fund subsidize other fund's operations.
- Capital Improvement Fund transfer to the Fire Fund provided funding for equipment purchases and maintenance during the year.

NOTE 11: INTERFUND RECEIVABLES AND PAYABLES

The following are interfund receivables (due from) and interfund payables (due to), reported in governmental activities and fiduciary fund:

	DUE FROM - COLLECTABLE BY:	DUE TO - PAYABLE BY:	
a.	General Fund	Tax Agency Fund	\$ 785
b.	General Fund	Road Fund	12,565
c.	General Fund	Fire Fund	<u>13,000</u>
			<u>\$ 26,350</u>
d.	Fire Fund	Capital Improvement	<u>\$ 18,865</u>
a.	For unremitted administration fees, penalties, and interest.		
b.	For loan made by the General Fund to the Road Fund.		
c.	For loan made by the General Fund to the Fire Fund.		
d.	For capital outlays and equipment maintenance.		

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2006

NOTE 12: RISK MANAGEMENT

The Township of Somerset, Michigan is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workmen's compensation benefits provided to employees. The Township of Somerset, Michigan has purchased commercial insurance for general liability on buildings and property, equipment damage and theft, employee theft, and limited tort claims for specific Township of Somerset, Michigan facilities or events.

The Township continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 13: CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, Township management does not believe such disallowances, if any, will be material to the financial position of the Township.

NOTE 14: SUBSEQUENT EVENTS

Improvements

Prior to year ended June 30, 2006, the Township approved various project bids. However, these projects did not begin until after year end. In July 2006, the Township expended \$14,000 on new paving for the Township parking lot. Additionally, the Township expended \$17,000 for various improvements in and around the Township building.

Fire Truck Acquisition

In August, 2006, the Township purchased a new fire truck in the amount of \$300,000. The Township acquired the truck with a cash payment of \$100,000 and a loan with a local financial institution for the remaining \$200,000. The terms of the loan require monthly installments of \$3,201, which includes interest at 4.72%, effective September 15, 2006 through August 15, 2010.

## REQUIRED SUPPLEMENTAL INFORMATION



TOWNSHIP OF SOMERSET, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 101,900	\$ 101,900	\$ 113,778
State revenues	290,000	290,000	301,124
Charges for services	55,425	55,425	33,283
Licenses and permits	32,000	32,000	69,178
Fines, fees, and forfeits	16,000	16,000	16,556
Interest	4,000	4,000	17,550
Rental revenue	6,200	6,200	3,760
Other	15,700	15,700	23,126
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL REVENUES	\$ 521,225	\$ 521,225	\$ 578,355
	<u>          </u>	<u>          </u>	<u>          </u>
EXPENDITURES			
Township board	\$ 18,775	\$ 18,775	\$ 13,015
Supervisor	31,951	31,951	26,258
Elections	10,400	10,400	8,383
Assessor	65,962	65,962	71,120
Legal and accounting	27,700	27,700	12,190
Clerk	46,128	46,128	39,594
Board of review	2,350	2,350	1,251
Treasurer	52,172	52,172	46,309
MB offices	21,250	21,250	18,915
SCCR	10,475	10,475	7,037
JCB	17,975	17,975	13,161
Cemeteries	33,100	33,100	25,905
Social services	1,000	1,000	200
Building department	34,310	34,310	32,437
Drain expense	1,000	1,000	340
Street lights	6,000	6,000	5,536
Sewer ad-hoc committee	30,000	30,000	12,280
Underground storage tanks	3,800	3,800	692
Hospital services	26,000	26,000	15,167
Postage fees			835
Fireworks activities	7,500	7,500	3,096
Library	38,182	38,182	33,836
Planning and zoning	25,630	25,630	13,835
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL EXPENDITURES	\$ 511,660	\$ 511,660	\$ 401,392
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES OVER EXPENDITURES	\$ 9,565	\$ 9,565	\$ 176,963
	<u>          </u>	<u>          </u>	<u>          </u>
OTHER FINANCING SOURCES (USES)			
Operating transfers (out)	\$ (227,009)	\$ (227,009)	\$ (227,009)
	<u>          </u>	<u>          </u>	<u>          </u>
NET CHANGE IN FUND BALANCE	\$ (217,444)	\$ (217,444)	\$ (50,046)
	<u>          </u>	<u>          </u>	<u>          </u>
FUND BALANCE - BEGINNING	526,114	526,114	526,114
	<u>          </u>	<u>          </u>	<u>          </u>
FUND BALANCE - ENDING	\$ 308,670	\$ 308,670	\$ 476,068
	<u>          </u>	<u>          </u>	<u>          </u>

TOWNSHIP OF SOMERSET, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND - ROADS

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 39,500	\$ 39,500	\$ 42,366
State revenues	1,000	1,000	5,233
Interest	<u>200</u>	<u>200</u>	<u>5,768</u>
TOTAL REVENUES	<u>\$ 40,700</u>	<u>\$ 40,700</u>	<u>\$ 53,367</u>
EXPENDITURES			
Wages and benefits	\$ 400	\$ 400	\$
Road improvements	45,300	100,300	41,675
Road maintenance	29,000	34,000	54,216
Insurance	5,900	5,900	5,255
Other	100	100	16
Interest expense	<u></u>	<u></u>	<u>867</u>
TOTAL EXPENDITURES	<u>\$ 80,700</u>	<u>\$ 140,700</u>	<u>\$ 102,029</u>
REVENUES (UNDER) EXPENDITURES	<u>\$ (40,000)</u>	<u>\$ (100,000)</u>	<u>\$ (48,662)</u>
OTHER FINANCING SOURCES			
Operating transfers in	<u>\$ 40,000</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>
NET CHANGE IN FUND BALANCE	\$	\$	\$ 51,338
FUND BALANCE - BEGINNING	<u>187,234</u>	<u>187,234</u>	<u>187,234</u>
FUND BALANCE - ENDING	<u><u>\$ 187,234</u></u>	<u><u>\$ 187,234</u></u>	<u><u>\$ 238,572</u></u>

TOWNSHIP OF SOMERSET, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND - FIRE

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 103,000	\$ 103,000	\$ 112,948
Charges for services	5,000	5,000	10,538
Donations	1,100	1,100	256
Interest	200	200	994
Other			10
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL REVENUES	<u>\$ 109,300</u>	<u>\$ 109,300</u>	<u>\$ 124,746</u>
EXPENDITURES			
Wages and benefits	\$ 88,100	\$ 88,100	\$ 95,596
Supplies	3,500	3,500	7,222
Fuel	3,000	3,000	2,613
Maintenance	9,300	9,300	10,687
Insurance	12,000	12,000	10,192
Utilities	2,000	2,000	2,593
Telephone	3,000	3,000	1,568
Equipment	9,000	9,000	6,769
Education and training	4,000	4,000	5,296
Contracted labor	1,900	1,900	6,191
Miscellaneous	2,400	2,400	390
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL EXPENDITURES	<u>\$ 138,200</u>	<u>\$ 138,200</u>	<u>\$ 149,117</u>
REVENUES (UNDER) EXPENDITURES	<u>\$ (28,900)</u>	<u>\$ (28,900)</u>	<u>\$ (24,371)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$ 50,565	\$ 50,565	\$ 50,565
Payments on long-term debt	(21,665)	(21,665)	(15,283)
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 28,900</u>	<u>\$ 28,900</u>	<u>\$ 35,282</u>
NET CHANGE IN FUND BALANCE	\$	\$	\$ 10,911
FUND BALANCE - BEGINNING	<u>31,420</u>	<u>31,420</u>	<u>31,420</u>
FUND BALANCE - ENDING	<u><u>\$ 31,420</u></u>	<u><u>\$ 31,420</u></u>	<u><u>\$ 42,331</u></u>

## TOWNSHIP OF SOMERSET, MICHIGAN

## REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND - POLICE

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 69,500	\$ 69,500	\$ 75,274
State revenues	500	500	250
Fines, fees, and forfeits	7,200	7,200	6,054
Interest	150	150	1,752
Other	<u>5,000</u>	<u>5,000</u>	<u>1,978</u>
TOTAL REVENUES	<u>\$ 82,350</u>	<u>\$ 82,350</u>	<u>\$ 85,308</u>
EXPENDITURES			
Wages and benefits	\$ 79,294	\$ 79,294	\$ 75,168
Supplies	800	800	1,385
Maintenance	6,300	6,300	6,513
Fuel	6,000	6,000	5,286
Insurance	11,500	11,500	10,675
Telephone	2,500	2,500	1,726
Equipment	8,000	8,000	6,285
Education and training	2,000	2,000	918
Miscellaneous	<u>1,200</u>	<u>1,200</u>	<u>137</u>
TOTAL EXPENDITURES	<u>\$ 117,594</u>	<u>\$ 117,594</u>	<u>\$ 108,093</u>
REVENUES (UNDER) EXPENDITURES	<u>\$ (35,244)</u>	<u>\$ (35,244)</u>	<u>\$ (22,785)</u>
OTHER FINANCING SOURCES			
Operating transfers in	<u>\$ 35,244</u>	<u>\$ 35,244</u>	<u>\$ 35,244</u>
NET CHANGE IN FUND BALANCE	\$	\$	\$ 12,459
FUND BALANCE - BEGINNING	<u>35,034</u>	<u>35,034</u>	<u>35,034</u>
FUND BALANCE - ENDING	<u>\$ 35,034</u>	<u>\$ 35,034</u>	<u>\$ 47,493</u>

TOWNSHIP OF SOMERSET, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND - CAPITAL IMPROVEMENTS

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 33,750	\$ 33,750	\$ 37,616
Interest	<u>250</u>	<u>250</u>	<u>2,173</u>
TOTAL REVENUES	<u>\$ 34,000</u>	<u>\$ 34,000</u>	<u>\$ 39,789</u>
EXPENDITURES			
Equipment	<u>\$ 94,065</u>	<u>\$ 94,065</u>	<u>\$ 13,655</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (60,065)</u>	<u>\$ (60,065)</u>	<u>\$ 26,134</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$ 60,065	\$ 60,065	\$ 60,065
Operating transfers (out)	<u></u>	<u></u>	<u>(18,865)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 60,065</u>	<u>\$ 60,065</u>	<u>\$ 41,200</u>
NET CHANGE IN FUND BALANCE	\$	\$	\$ 67,334
FUND BALANCE - BEGINNING	<u>49,841</u>	<u>49,841</u>	<u>49,841</u>
FUND BALANCE - ENDING	<u><u>\$ 49,841</u></u>	<u><u>\$ 49,841</u></u>	<u><u>\$ 117,175</u></u>

## OTHER REPORTS



Osbourne, March, Condon & Co., P.C.

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## TOWNSHIP OF SOMERSET, MICHIGAN

### GAO GOVERNMENT AUDITING STANDARDS REPORT

#### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Township Board  
Township of Somerset, Michigan  
Somerset Center, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Somerset, Michigan as of and for the year ended June 30, 2006, which collectively comprise the Township of Somerset, Michigan's basic financial statements and have issued our report thereon dated July 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Somerset, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

In planning and performing our audit, we considered the Township of Somerset, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

We noted matters involving the internal control over financial reporting that we have reported to management of Township of Somerset, Michigan in a separate letter dated July 31, 2006.

This report is intended for the information of the Township Board, management, and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

*Osbourne, March, Condon & Co., P.C.*

Certified Public Accountants





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TOWNSHIP OF SOMERSET, MICHIGAN  
AUDITOR'S COMMENTS AND RECOMMENDATIONS

July 31, 2006

Township Board  
Township of Somerset, Michigan  
Somerset Center, Michigan

In planning and performing our audit of the financial statements of Township of Somerset, Michigan for the year ended June 30, 2006, we considered the Township's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated July 31, 2006, on the financial statements of Township of Somerset, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the Township's management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

*Osbourne, March, Condon & Co., P.C.*

Certified Public Accountants

### **METRO GRANT**

In the past couple of years, the Township has received Metro Grant dollars from the State of Michigan. As of June 30, 2006, these monies have not been expended and are reserved in the Road Fund equity. We encourage the Township to research what type of allowable expenditures the money can be expended towards and the timeline, if any, the grant dollars are required to be disbursed. The Township should practice expending restricted resources before utilizing unrestricted resources to avoid inadvertently expending restricted cash on nonallowable expenditures, i.e., drawing down cash in excess of unrestricted resources, resulting in disbursing restricted resources on nonallowable operating expenditures.

### **PERSONNEL FILES**

During our audit, we identified that personnel files maintained in the Clerk's Office do not contain pertinent information in a systematic format that is easily located. We recommend the Clerk's Office design or purchase "Employee Profile Sheets" that provide a format to document employee's name, address, date of hire, position, rate of pay, and changes thereto, i.e. benefits, etc. In doing so, this will provide organized personnel files.

### **ROAD FUND LOAN FROM GENERAL FUND**

The Road Fund has been collecting special assessment property taxes each year for the June 2001 road paving project that was initially funded by a loan from the General Fund. However, the remaining obligation due from the Road Fund to the General Fund has not been repaid. We encourage the Township to repay the General Fund the remaining balance due.

### **EXPENDITURES OVER BUDGET**

P.A. 621 of 1978 Section 18, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved Fire Fund budget of the Township was adopted at the fund level. During the year ended June 30, 2006, the Township incurred expenditures in the fund, which were in excess of the amended budget as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Fire Fund	\$ 138,200	\$ 149,117	\$ 10,917